

# **MODOC COUNTY ASSESSMENT PRACTICES SURVEY AND ASSESSOR'S RESPONSE**

## **OCTOBER 1998**

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### **CALIFORNIA STATE BOARD OF EQUALIZATION**

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## **FOREWORD**

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee who is usually but not always the owner, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a lower restricted value. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization (BOE) has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the BOE's County Property Tax Division (CPTD), is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey.

Assessment practices surveys are authorized by Government Code sections 15640 et seq. These code sections require each county's assessment practices to be the subject of such a survey at five year intervals. The surveys must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties. The surveys may include a sampling of assessments from the local assessment roll to determine eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60.

The assessor was provided a draft of this report and given an opportunity to file a written response to the findings, recommendations and suggestions contained in the report. This report, the county assessor's response and the CPTD's comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Modoc County Assessor's Office was conducted by CPTD during May and June of 1997. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Josephine Johnson, Modoc County Assessor, and her staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief  
County Property Tax Division  
Department of Property Taxes  
California State Board of Equalization  
October 1998

## COUNTY PROPERTY TAX DIVISION SURVEY GROUP

### Modoc County

Survey Program Director:  
J. Thomas McClaskey

Principal Property Appraiser

Survey Team Supervisor:  
David Hendrick

Supervising Property Appraiser

Survey Team:  
Anthony Yuenger  
Michael Allen  
Andy Anderson  
Les Morris  
Dale Peterson  
Teresa Brink

Senior Specialist Property Auditor Appraiser  
Associate Property Appraiser  
Associate Property Appraiser  
Associate Property Appraiser  
Associate Property Auditor Appraiser  
Tax Technician II

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## I. INTRODUCTION, SUMMARY, RECOMMENDATIONS AND SUGGESTIONS

### A. INTRODUCTION

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Modoc County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the State Board of Equalization (BOE) to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Modoc County Assessor's Office by the BOE's County Property Tax Division (CPTD).

Government Code Section 15640, in part, mandates that the BOE shall:

(a) Make surveys in each county and city to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. ... (c) The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. ... (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

It is apparent from this language that the Legislature envisioned the BOE's office research and appraisal sampling to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on office research, or in certain circumstances, office research and actual field appraisals of sampled roll items. The way in which the office research and the sampling process is carried out was developed after consultation with the county assessors by the staff of the BOE's Property Taxes Department.

This survey was conducted according to the method mandated by Government Code section 15642. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate. This report is the culmination of a review of the Modoc County Assessor's operation that consisted of the CPTD's office research that examined current practices and procedures in key areas to see whether significant problems exist in the assessor's operation. Finally, the survey report offers positive courses of action, presented here as recommendations and suggestions, to help the assessor resolve problems identified in the program. The recommendations and suggestions contained in this report are based on our

analysis of data which indicates that statutory violations, under-or overassessments, or unacceptable appraisal practices may be occurring in specific areas.

Revenue and Taxation Code section 75.60 requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment sampling program. In addition, for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount. Based upon our current assessment sampling for the 1993-94 assessment roll, the BOE certified Modoc County as an eligible county. This indicates that its assessment program is in substantial compliance with the law.

## B. OVERVIEW OF MODOC COUNTY

The Modoc County local assessment roll is one of the smallest of the 58 local assessment rolls in California, both in assessed value and number of assessments on the roll. The number of assessments has been stable for several years, with small annual increases in the aggregate assessed value. The following chart displays the pertinent information on the 1995-96 assessment roll. Except for the enrolled value for the secured roll, the information is taken from the BOE's publication *A Report on Budgets, Workloads and Assessment Appeals Activities in California Assessors' Offices*, dated May 1997. The information for the secured roll total value as displayed in Table F of that publication erroneously includes state assessed property; the information in the following chart has corrected that error. The May 1997 edition of the publication was the most recent available as of the date of fieldwork for the survey.

<u>Property Type</u>	<u>Number of Assessments in County</u>	<u>Enrolled Values</u>
Residential	2,714	
Miscellaneous (includes manufactured homes)	19,119	
Rural	4,842	
Commercial/Industrial	<u>658</u>	
Total Secured Roll	27,333	\$478,815,000
 Total Unsecured Roll (personal property except manufactured homes)	 <u>1,031</u>	 <u>18,948,000</u>
 Total Roll	 <u>28,364</u>	 <u>\$497,763,000</u>



Unlike many counties that suffered major budget cuts in prior years, the Modoc County Assessor's staff size has remained stable during the past three fiscal years, beginning in fiscal year 1994-1995 and ending in 1996-1997. The assessor's budget actually increased during this three year period by 17.1 percent. For the fiscal year 1996-97, the assessor's office prepared an assessment roll containing 28,197 assessments on an adopted budget of \$335,715.<sup>1</sup>

The local assessment roll was prepared by eight funded positions including the assessor. The professional staff assigned to handle the real and personal property included two appraisers and one auditor-appraiser. The following table summarizes staff, workload, and budget data for the prior three years.

	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>
Budget Dollars	\$286,612	\$300,220	\$335,715
Funded Staff	8	8	8
Total Roll Units	28,260	28,364	28,364
Total Roll Value	\$484,000,000	\$498,000,000	\$511,000,000
(rounded to nearest million)			

Modoc County is the northeastern most county in California. It shares common borders with the states of Oregon to the north and Nevada to the east. Created as a county in 1874 from the eastern portion of Siskiyou County, Modoc County's population is approximately 10,000,<sup>2</sup> of whom approximately 3,000 reside in Alturas, the only incorporated city in the county.

Government is one of the county's largest employers. This is due in part to the fact that approximately 66 percent of the county's 2.8 million acres are publicly owned, thus requiring that federal and state agencies maintain offices in Modoc County with sizable staffs to administer 1.85 million acres of public land.

The per capita income of the county residents as of 1994 was \$15,588, seventh lowest of California's 58 counties. There were only 310 persons receiving wages as farm employees during 1992, despite the fact that 466 farms operated in Modoc County on 686,876 total acres. There are approximately 230 licensed retail facilities providing a wide selection of trade within the county

There has been little activity in new housing construction. Only 10 new housing units were authorized by building permits in 1995. An average of 14 permits for new housing have been issued annually since 1984, or a cumulative total of only 168 permits for a 12-year period.

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<sup>1</sup> 1996-1997 Modoc County Budget

<sup>2</sup> "California Statistical Abstract - 1996" page 16.

## C. SUMMARY

Private or government organizations are well managed when operations of the organization are properly planned, organized, directed, and controlled. Effective control requires that management establish control techniques that ensure the organization: (1) complies with federal, state, and local laws or regulations; (2) complies with internal policies and procedures; (3) accomplishes management objectives; (4) maintains the reliability and integrity of data; and (5) uses resources effectively and efficiently. Our examination addressed the effectiveness of the controls established by the assessor's office, as well as the procedures employed by the assessor's office to direct efforts to properly prepare, document, and enroll property assessments.

The Modoc County Assessor's Office has a well organized, small staff. Appraisal and audit staff report directly to a senior appraiser, who in turn reports directly to the assessor. Operations are controlled through direct supervision, memoranda, and staff meetings. The assessor is active in the supervision of daily operations. The small number of recommended changes contained in this survey report is a reflection of her active and knowledgeable participation in the daily operations.

Since our last survey report published in 1991, there have been significant improvements to the entire personal property assessment program. This was accomplished through the hiring of an auditor-appraiser in 1992. The previously neglected mandatory audit program is now current. The assessor also implemented a nonmandatory audit program, the addition of which is a frequent recommendation of our survey reports. However, we make a recommendation to improve the business property assessment program by properly enrolling escape assessments. We also recommend classifying manufactured homes as personal property instead of real property.

Our recommendations for the real property assessment program are directed mainly to several of the special properties. We recommend the assessor revise the assessment practices for government owned properties and historic properties, and that all qualifying possessory interests be assessed. In addition to our recommendations, we also suggest the assessor review the assessment practices for mutual water company property and offer two suggestions for improving documentation procedures for appraisal records.

## D. RECOMMENDATIONS AND SUGGESTIONS

The following is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation or suggestion and its supporting text may be found.

Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present.

- Existing assessment practices result in the generation of an improper amount of property tax revenue.
- Existing appraisal practices do not conform to generally accepted appraisal theory.

### RECOMMENDATIONS

- RECOMMENDATION 1: Enroll escaped assessments in the manner prescribed by the Revenue and Taxation Code. (Page 7)
- RECOMMENDATION 2: Include the cash equivalent value of the future payments for outstanding improvement bonds in the sale price of real property. (Page 13)
- RECOMMENDATION 3: Assess all taxable possessory interests. (Page 14)
- RECOMMENDATION 4: Assess all land subject to the provisions of article XIII, section 11 of the California Constitution at the lowest of the (1) current fair market value, (2) article XIII, section 11 factored value, or (3) article XIII A factored base year value. (Page 15)
- RECOMMENDATION 5: Develop assessment techniques that eliminate the likelihood that mutual water company property will escape assessment. (Page 16)
- RECOMMENDATION 6: Annually determine the taxable values of eligible historic properties by enrolling the lowest of the (1) section 439 restricted value; (2) article XIII A factored base year value; or (3) current market value. (Page 17)
- RECOMMENDATION 7: Revise manufactured home assessments by: (1) classifying manufactured homes as personal property on the assessment roll; and (2) assessing taxable manufactured home accessories in rental parks. (Page 21)

### SUGGESTIONS

- SUGGESTION 1: Improve appraisal record documentation. (Page 10)
- SUGGESTION 2: Document, on the appraisal record, the date of review, source of information, and value approach used when reviewing properties for declines in value. (Page 12)

## II. ADMINISTRATION

### A. INTRODUCTION

The following sections under Administration will present discussions and, in some instances, recommendations on topics that affect both real and personal property assessments or the coordination between real and personal property sections.

### B. POLICY AND PROCEDURES

#### 1. State-County Property Tax Administration Program

Revenue and Taxation Code section 95.31 provides that upon recommendation of the assessor and by resolution of the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program. A county may apply for a loan to enhance its property tax administration system, reduce a backlog of appraisals required by new construction and change in ownership events, and enhance audit capabilities. Under the terms of the contract the county repays the loan by meeting performance measures that are enumerated in the contract. Seventeen of the 58 counties in California, including Modoc County, did not participate in the program for fiscal year 1995-1996. Modoc County also did not participate in fiscal year 1996-97.

#### 2. Training

Revenue and Taxation Code section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers shall complete at least 12 hours of training if he or she holds an advanced certificate or 24 hours of training without an advanced certificate.

To qualify for an advanced appraiser's certificate, one must have a minimum of six BOE training courses with at least two classified as advanced. Outside courses that can be substituted for a BOE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

The assessor's staff in Modoc County who perform appraisals have the required BOE certificate and are current in their training requirements.

#### 3. Assessment Roll Change Procedures

The county assessor has a duty to complete the local assessment roll and deliver it to the county auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by the board of supervisors and the county counsel, or by statutory provisions.

Escape assessments are assessments made after the assessor has certified that the completed local assessment roll was prepared pursuant to Revenue and Taxation Code section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. The assessor also must cite the Revenue and Taxation Code section pursuant to which the escape assessment is being made; this citation notifies the auditor and tax collector of any requirement for additional interest on the unpaid tax.

The Revenue and Taxation Code specifies the language required to identify escape assessments on the roll. Revenue and Taxation Code section 533 explains how the escape assessment entry is to be made on the roll. If the escape assessment is entered on a roll other than the roll for the assessment year in which it escaped assessment, then the entry must be followed with the caption:

“Escaped assessment for year 19\_\_ pursuant to sections \_\_\_\_ of the Revenue and Taxation Code.”

Audits of taxpayer records frequently result in changes to the original assessment. Some audits covering a four-year period may indicate the need for an assessment change in multiple years. These changes to multiple years should not be aggregated when making an escape assessment.

When an audit finding results in a reduction in the assessed value, the assessor should notify the taxpayer of the amount of the excess valuation and of the right to request a cancellation of the assessment or, if the taxes have been paid, a refund of taxes as provided by Revenue and Taxation Code section 5097 et seq. The individual years of escape assessments should be enrolled as previously described.

RECOMMENDATION 1: Enroll escaped assessments in the manner prescribed by the Revenue and Taxation Code.

The Modoc County Assessor is aggregating assessment changes that result from audit findings. We found that for some taxpayers with multiple years of escaped assessments, the assessor’s office aggregated the escaped assessments and enrolled one escaped assessment in the current year for the total. Although the assessment amounts in the aggregate were correct, separate escape assessments were not enrolled, nor were the required captions for each individual year escaping assessment present as required by Revenue and Taxation Code section 533.

We recommend the assessor enroll a separate assessment for each year of an escaped assessment and include the appropriate caption required by section 533. This will ensure that rolls are posted in a manner that complies with the Revenue and Taxation Code.

## C. ASSESSMENT APPEALS

The assessment appeals function is established by article XIII, section 16, of the California Constitution. Revenue and Taxation Code sections 1601 through 1645 are the statutory references that guide county assessment appeals boards. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has promulgated Property Tax Rules 301 through 326 of the California Code of Regulations, Public Revenue, to regulate assessment appeals.

In Modoc County assessment appeals are heard by the board of supervisors sitting as a board of equalization. Ten assessment appeals were initially filed for the 1996-97 tax year; six have been resolved and, at the time the CPTD fieldwork was conducted for this survey report, four remained to be heard. Ten appeals were also heard in 1995-1996, while only three were heard in 1994-1995.

In Modoc County each appraiser or auditor-appraiser is responsible for preparing and presenting responses to appeals that occur in their geographic area of responsibility. We found no problems with the assessor's procedures during our interviews with the assessor's staff or during our review of the files. We commend the assessor and her staff for their effective and efficient handling of assessment appeals.

## D. DISASTER RELIEF

Revenue and Taxation Code section 170 allows a county board of supervisors to adopt an ordinance that would provide property tax relief to an assessee whose property has been damaged or destroyed without the assessee's fault. The ordinance may apply to a major misfortune or calamity within a region that has been declared a state of disaster by the Governor, or to any other misfortune or calamity, or to both. The ordinance may specify a period of time within which the ordinance shall be effective, or it may remain in effect until it is repealed. The Modoc County Board of Supervisors adopted such an ordinance in 1975.

To obtain relief under Revenue and Taxation Code section 170, the assessee must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by a misfortune or calamity within the previous six months, the assessor must either provide the last known assessee with an application for reassessment or, with the approval of the board of supervisors, revalue the property without an application from the owner.

To be eligible for disaster relief a property must have suffered \$5,000 or more in damage. When a property qualifies for disaster relief, the assessor must reduce the taxable values of the eligible property by the percentage of the full cash value lost, not to exceed the actual value lost.

In Modoc County, the assessor normally processes five to ten requests for disaster relief each year. At the time of our fieldwork in May of 1997, there were approximately 30 claims being processed due to flooding in January and February of 1997.

The assessor's staff usually discover properties that require disaster relief due to fires by reviewing the local newspaper. Unlike most other counties, fire fighting agencies in Modoc County do not report structure fires to the assessor's office despite the assessor's periodic requests for the reports. Modoc County has a small population and therefore fires of any significance are probably known to the assessor's staff without fire reports. However, it would take very little effort to obtain the reports, and it is possible that some previously unknown disaster might be discovered through the reports.

We reviewed a sample of the assessor's records pertaining to disaster relief and found no problems. Although our review did not discover any disaster situations that were unknown to the assessor, we believe the assessor should pursue the fire reports. We commend the assessor for her efforts in providing tax relief for taxpayers who have suffered a loss in value to their property as a result of disaster.

### III. REAL PROPERTY VALUATION AND ASSESSMENT

#### A. INTRODUCTION

The assessor's program for assessing real property includes (1) revaluation of properties that have changed ownership; (2) valuation of assessable new construction; (3) annual review of properties having market values below their factored base year values; and (4) annual review of certain properties subject to special assessment provisions. Our review of the real property assessment program indicates most aspects are functioning well. However, we offer several recommendations that we believe will improve an already good program.

#### B. THE APPRAISAL PROGRAM

##### 1. Change in Ownership

Ordinarily when a change in ownership of real property occurs, a deed is recorded at the county recorder's office. This recorded deed is reviewed by the assessor's office to discover a change in ownership condition that triggers establishment of a new base year value.

In Modoc County, the initial processing of a recorded document is performed by the assessor's drafting unit. The parcel number and legal description on the document is compared to the assessor's parcel map in order to verify the accuracy of the deed's reported parcel number as compared to the legal description on the deed. The assessor's parcel map is then updated for any parcel split and/or combination.

The clerical unit then reviews this recorded document for a change in ownership that would trigger the establishment of a new base year value. When a change in ownership is found, the clerk determines what percentage of ownership was transferred. Information contained in the document and the related appraisal record is then compared to information received from the recorder's office contained in the Preliminary Change in Ownership Report (PCOR) related to the deed. The assessment clerk updates the appraisal record with the new owner's name and recording data. After the computerized assessment file is updated with pertinent information, the deeds are filed, and the PCOR and appraisal records are forwarded to the appraisal staff.

##### SUGGESTION 1: Improve appraisal record documentation.

We traced 25 deeds through the assessor's system and found that most transfers were enrolled with the indicated sale price. The only deficiencies we noted were as follows. The appraisal records were not documented for adjustments to the nominal sale prices for any improvement bonds involved in the transactions. Adjustments to a nominal sale price because of assumption of the improvement bond liability is discussed in the following topic "Cash Equivalency." Also, when a change in ownership event occurred that did not meet the definition of a market value transaction as defined in Revenue and Taxation Code section 110 and BOE Rule 2, the assessor's staff made a market value estimate and used that estimate for the new base



year value. However, we found the appraisal records did not have market value information and did not indicate the appraisal method used to determine market value.

We suggest that the assessor's staff improve the documentation on the appraisal records by recording on the appraisal records what data sources were used and how values were determined. This would help the staff readily explain the appraised value to any taxpayer who might inquire about the assessment.

## 2. New Construction

Revenue and Taxation Code sections 70, et seq. require that newly constructed real property be valued and assessed as of the date of completion of construction or each lien date that construction is in progress. Assessors discover new construction primarily by reviewing building permits issued by various agencies. Other means of discovery include business property statements submitted by taxpayers to the assessor's office or field inspections performed by the appraisers.

In Modoc County, only the City of Alturas and the county government issue building permits. The total number of building permits issued in the entirety of Modoc county in previous years are shown in the following chart, which indicates that construction activity has been at low levels for several years. This low level of construction activity is reflected in the low numbers of new base year values created by the assessor as a result of new construction.

<u>Year</u>	<u>Total Permits</u>	<u>Permits for Alterations or Additions</u>	<u>Estimated Cost</u>	<u>Permits for New Structures</u>	<u>Estimated Cost</u>
1995-96	466	78	\$ 866,920	89	\$ 1,893,088
1994-95	465	82	\$ 968,385	96	\$ 2,144,822
1993-94	331	100	\$ 898,170	74	\$ 2,164,785

We recommended in our last assessment practices survey report that the assessor's office document, on the appraisal records, the source of the cost factors used to appraise new construction. During our current review of the assessor's records, we found most of the sampled records had notations indicating that the source of the cost factors was local contractors. When the source was not noted in the appraisal records, the appraiser used BOE cost factors. We found that local cost factors were supported by the data contained in cost books assembled by the assessor's staff. Overall, we found that the assessments of new construction have been properly processed and documented.

## 3. Declines in Value

Revenue and Taxation Code section 51 requires the taxable value of real property to be the lesser of either its base year value factored annually for inflation or its current market

value as defined in Revenue and Taxation Code section 110. On each lien date that a property's current market value is below its factored base year value (FBYV), that lower value must be enrolled as the taxable value. If the property's market value on subsequent lien dates increases above the FBYV, then the FBYV resumes as the taxable value.

Revenue and Taxation Code section 4831 permits roll corrections for up to one year after the delivery of the roll, if the purpose of the correction is to reflect a market value below FBYV. This permits the assessor to make value reductions to the current roll after the roll has been submitted to the auditor and should serve to reduce the number of assessment appeals.

SUGGESTION 2: Document, on the appraisal record, the date of review, source of information, and value approach used when reviewing properties for declines in value.

During our 1991 survey of the Modoc County Assessor's Office, we found that the assessor suspended inflation indexing for certain properties in an attempt to implement Revenue and Taxation Code section 51 on a mass basis with a small appraisal staff. We recommended the county review all assessments where inflation indexing had been suspended.

During our current survey we found that when a property changes ownership the assessor's staff will accept as market value a selling price that is at the top of the value range and use it as a new base year value. They additionally will assign a computer code to the parcel that prevents the computer program from automatically indexing the new base-year value for inflation in subsequent roll years. The effect of this process is to create a taxable value that, pursuant to section 51, requires an annual review.

To implement this required review the assessor's staff maintains comparable sales information in folders designated by area. The appraisers can quickly refer to the file to explain the assessment to a taxpayer or adjust the taxable value for the prospective assessment roll. However, there is no documentation on individual appraisal records regarding the contents of such a review.

We suggest the assessor's staff document, on each appraisal record, how the current year taxable value was developed for properties that are the subject of an annual value review.

#### 4. Cash Equivalency

Improvement bonds are used to finance construction of public improvements that usually enhance the value of real property. Some examples of this type of construction are sewers, sidewalks, lighting, and water lines. Land directly benefiting from construction of such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien against the land and an obligation that is assumed by the owner or successors in interest.

Property Tax Rule 4 requires an appraiser, when determining a property value by use of the sales comparison approach, to adjust the nominal selling price of comparable property encumbered by such bonds. The adjustment is to be made by adding to the sale price the unpaid cash equivalent value of the future payments for outstanding improvement bonds.

RECOMMENDATION 2: Include the cash equivalent value of the future payments for outstanding improvement bonds in the sale price of real property.

We reviewed sales for unimproved lots in assessor's map book 36 for the period of June 1989 through June 1996. We found that 71 of the 81 records we reviewed had a change in ownership where the purchaser assumed the liability of outstanding improvement bonds. Despite records indicating that a bond was included in the selling price, no adjustments were made to the sale price to include the value of the future payments on the bond. In each case, the properties were valued at the nominal selling price.

Revenue and Taxation Code section 110(b) states that the market value of a property shall be rebuttably presumed to be the purchase price. The cash equivalent adjustment required by Property Tax Rule 4 applies equally to a situation when sale price is accepted as the market value or to a situation when the sales comparison approach is used to determine property value. The appraiser should include the cash equivalent value of the future payments for any outstanding bonds the buyer assumes as an adjustment to any selling price. The new base year value developed from the sale price of the subject property must include the present value of any bonds assumed by the buyer.

We recommend that the assessor's staff identify sold properties encumbered with improvement bonds and adjust their nominal selling prices by adding the cash equivalent value of the future payments for bonds assumed by the buyer to the nominal sale price. The adjusted sale price is a value indicator; it does not necessarily represent market value. The reliability of the indicator must be resolved by the appraiser prior to being enrolled as market value.

## C. SPECIAL PROPERTY TYPES AND PROCEDURES

### 1. Timberland Production Zone Property

The taxable value of land zoned Timberland Production Zone (TPZ) is based upon a statutory valuation method prescribed by Revenue and Taxation Code sections 431, et seq. For the 1996-97 roll, Modoc County reported 553 land parcels zoned as TPZ, totaling 197,012 acres, with a taxable value totaling \$12,786,403. Most of the land zoned TPZ in Modoc County consists of Site Classes III and IV, Pine-Mixed Conifer Region.

In our previous survey report, we recommended that the assessor comply with Revenue and Taxation Code section 435(a) which specifies that the taxable value of TPZ land must be its appropriate TPZ site value plus the current market value of existing, compatible, nonexclusive uses of the land.

We reviewed eight TPZ parcels to determine if the assessor appropriately valued these parcels by including the market value of compatible uses. Five parcels had no observed compatible uses, while three parcels appeared to be used for grazing. We found the assessor had correctly valued the parcels.

## 2. Taxable Possessory Interests

A taxable possessory interest (PI) is a private property interest in publicly owned real property. The term “possessory interest” as it is used for property taxation purposes in California includes either the possession or the right to possession of real property when fee title is held by a tax exempt agency.

PI’s that are assessed in Modoc County include the following types of private uses and owners of the fee interest in the land:

- (1) 200 grazing permits issued by either the federal Bureau of Land Management, federal Bureau of Reclamation, or the State Lands Commission;
- (2) 100 mining claims issued by the federal Bureau of Land Management;
- (3) 50 agricultural leases issued by the federal Bureau of Reclamation;
- (4) 20 aircraft hangars at three airports owned by county government;
- (5) Two cable television franchises operating on public streets; and
- (6) One ski area on United States Forest Service property.

In Modoc County PI’s are typically discovered by reviewing newspapers, business property statements, reports from government agencies, and by interviewing local residents. Each year the assessor’s office requests, from the various government agencies operating in the county, a list of new PI’s created in the county. The assessor has been unable to obtain this information from the U.S. Forest Service because of that agency’s assertion that release of such data would violate federal law relating to privacy rights.

### RECOMMENDATION 3: Assess all taxable possessory interests.

There have been some events held on publicly owned land in Modoc County such as the Modoc County Fair, Beehive Fair, and other events held annually or periodically, where the participants’ use of the property has not been consistently assessed as a PI. The assessor’s staff said that vendors at these events often do not earn enough income to warrant a PI assessment and may not meet the criteria for establishment of a taxable PI. The assessor’s staff stated that some vendors have not returned after being assessed a PI tax because of the small amount of earnings at these events. The assessor has not assessed PI’s at these events because the assessment does not generate enough property tax revenue to offset the cost of the work required to assess and collect the tax.

Revenue and Taxation Code section 155.20 allows a board of supervisors to enact a resolution exempting certain low value property, including possessory interests, from

assessment. Absent such a resolution the assessor has no authority for not assessing possessory interests.

We recommend that the assessor review and assess qualifying possessory interests in order to comply with statutory requirements.

### 3. Taxable Government-Owned Property

The California Constitution, in article XIII, sections 3 and 11(a), exempts from taxation property owned by a local government except lands and the improvements thereon that are located outside the local government's boundaries that were subject to taxation at the time of acquisition. These lands are commonly referred to as section 11 properties.

Recently the California Supreme Court held in *City and County of San Francisco v. County of San Mateo et al.*, (1995, 10 CAL 4th 554) that the limitations of the California Constitution, article XIII A also apply to "section 11" properties other than those located in Inyo and Mono counties. Prior to this decision, these lands were assessed at the lower of the fair market value or the 1967 taxable value of the land multiplied by a factor, described in section 11, and supplied annually by the BOE.

Improvements that were taxable when acquired by the government agency are assessed at the lowest of their article XIII A factored base year value, the full cash value as defined in Revenue and Taxation Code section 110, or the highest taxable value ever used for the improvement prior to acquisition by the government. New construction is exempt, unless it replaces previously taxable improvements.

For Modoc County, the California Supreme Court's finding that the valuation limitation of article XIII A for real property applies to section 11 property means such property must be assessed using the lowest of the (1) current fair market value, (2) 1967 taxable value of land multiplied by the factor described in section 11, or (3) article XIII A factored base year value.

RECOMMENDATION 4: Assess all land subject to the provisions of article XIII, section 11 of the California Constitution at the lowest of the (1) current fair market value, (2) article XIII, section 11 factored value, or (3) article XIII A factored base year value.

Modoc County has five section 11 properties on the assessment roll. Assessed values were based on section 11 factored values. However, fair market values were not calculated to determine whether these values were lower than the section 11 values. This procedure only partially complies with the requirements of section 11 and the procedure does not comply with the California Supreme Court's decision.

The assessor agrees that the proper taxable value for these properties is the lowest of the three options but believes there is little likelihood that factored base year value or market

value is less than the section 11 factored values. We recommend the assessor review their assessed values for section 11 properties and determine if the assessed values are consistent with the California Supreme Court decision.

#### 4. Water Company Property

A mutual water company is a private association of persons created for the purpose of providing water at cost for members or stockholders. Usually, but not always, the individual ownership interests in the company are appurtenant to the individual parcels of land eligible for water service from the company.

Mutual water company property has not been separately assessed in Modoc County since 1991, the date of the last BOE survey of the assessor's office. At the time of that survey mutual water company property was assessed to the associations and not the owners of the land served by the associations. The BOE's previous survey report for Modoc County recommended that the property of mutual water companies not be separately assessed unless there was evidence that the fee value of water company property was not included in the sale prices of the land served by the water companies. This is because the value of an association member and land owner's equity interest in the company is included in the sale price of the land served by the water company. It follows that a prorata share of the value of the company's property is included in the sale price.

RECOMMENDATION 5: Develop assessment techniques that eliminate the likelihood that mutual water company property will escape assessment.

There are four mutual water associations in Modoc County; all located in the Tulelake area. Based on the assessor's recent investigation we have determined that a portion of each company's property is situated in Siskiyou County. The water source for the companies and a portion of the pipeline that transports water to the distribution systems is located in that county. The four associations borrowed funds to install water mains and laterals. Each member of an association is obligated to repay the association's loans.

Based on our current review, we have concluded that, for the mutual water company property in Modoc County, the value of the owners' equity interests in the associations' property is not the equivalent of the fee value of the associations' property. Because the associations borrowed money to acquire the property, the value of the owners' equity has been reduced from the fee value of the property by the amount of the loans. Therefore the sale prices of the served land only include this reduced value of the equity interest in the mutual water companies' tangible property and not the fee value.

We recommend that the assessor develop assessment techniques for mutual water company property that eliminate the likelihood of (1) escape assessments caused by the companies' borrowed funds which reduce the value of the equity in the company, and (2) assessment of the value of the property owned by mutual associations situated in Siskiyou County.

#### 5. Historic Property

Revenue and Taxation Code section 439, et seq., provides a specific procedure for calculating the taxable value of qualifying historic property. The purpose of this procedure is to encourage the renovation and maintenance of historic properties throughout California by providing a property tax incentive for their owners.

Government Code section 50280 states that an owner of a qualified historic property that is privately owned and not exempt from property taxation may enter into a contract with a local government to restrict the use of the property in a manner that preserves the historical significance of the property. Section 50280.1 stipulates that in order for a property to be eligible for such a contract, it must be listed on the National Register of Historic Places, or be listed on a state, county, or city register as historically or architecturally significant.

Unless the historical property contract provides otherwise, historic properties are reassessed annually at the lowest of their article XIII A factored base year value, current market value, or the restricted value prescribed by section 439, et seq. When calculating the restricted value of enforceably restricted historic properties, Revenue and Taxation Code section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using the capitalization of income method. In this method, a fair or market rent less ordinary and necessary expenses is capitalized by a rate that is the sum of (1) an interest component that is determined annually by the BOE; (2) a risk component of 4 percent if the property is an owner-occupied single family dwelling, or 2 percent if the property has another use; (3) a component for property taxes; and (4) a component for amortization of the improvements.

RECOMMENDATION 6: Annually determine the taxable values of eligible historic properties by enrolling the lowest of the: (1) section 439 restricted value; (2) article XIII A factored base year value; or (3) current market value.

Modoc County has two historic properties with qualifying contracts. In 1990, the taxable values for these two properties were estimated using the capitalized income approach to value as prescribed by section 439. However, for subsequent years, these taxable values have not changed. We found no indication that these values have been annually reviewed to ensure they are correct.

We recommend the assessor annually review the taxable values of historical properties in order to insure that the requirements of Revenue and Taxation Code section 439 are fulfilled.

#### IV. PERSONAL PROPERTY VALUATION AND ASSESSMENT

##### A. INTRODUCTION

In Modoc County, the assessor's personal property appraisal staff consists of one auditor-appraiser who is responsible for the appraisal of more than 900 commercial, industrial, or agricultural accounts, approximately 40 general aircraft, and more than 300 pleasure boats.

The CPTD's sampling of the county's 1993-1994 assessment roll included 50 secured and unsecured personal property assessments. In 39 of those sampled items, county taxable value differed from the taxable value determined by CPTD staff. The majority of the differences were caused by erroneous taxpayer reporting. This problem has been addressed by the assessor's implementation of both a mandatory and non-mandatory audit program. We do not believe that the remaining differences in taxable value indicated any major program deficiencies.

The prior survey report recommended three improvements to the personal property assessment program. Our current review found that all three recommendations have been fully implemented. The mandatory audit program is current for 1996. The personal property appraisals are reviewed prior to enrollment and the proper statutory authority is cited when enrolling escape assessments.

In our current review we did find a deficiency, that is applicable in most part to the personal property assessment program, in which multiple years' escape assessments are aggregated together in order to enroll only one escape assessment on the current roll. This is discussed in the topic on "Assessment Roll Change Procedures."

Although we commend the assessor and her staff for their continuing efforts to improve the personal property assessment program, in the following sections of this report we do note a few areas needing improvement.

##### B. PROPERTY STATEMENT PROCESSING

Personal property assessments are usually based upon data submitted annually by taxpayers on the various property statements. These statements are for a variety of types of properties such as business, agriculture, boat, and aircraft.

Upon receipt of the statement, it usually is not possible for the assessor's staff, or the CPTD, to determine with certainty the accuracy of the statement. Therefore when we reviewed the property statement processing activity we made no attempt to measure the level of taxpayer reporting compliance.

Obviously, the more accurate the data reported by taxpayers the more accurate the assessment will be. Accurate reporting on the property statements has been a continuing problem in Modoc county as it is in most counties. This lack of accuracy is caused by many factors, most



of which can be corrected by the taxpayers' knowledge that the assessor has a vigorous audit program. The Modoc assessor's recent implementation of such an audit program should cure most taxpayer reporting problems.

We reviewed a number of property statements and the statement processing procedures. We found no problems with the processing of property statements. Property statements had appropriate signatures, calculations were accurate, and the statements were processed efficiently.

## C. AUDIT PROGRAM

The audit program is one of the more important functions of a personal property assessment program. Audits provide a means for determining the accuracy of taxpayer reporting as well as validating the enrolled value. Depending on the audit findings, the original assessment may be adjusted to reflect the audited values.

Pursuant to Revenue and Taxation Code section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more. Section 469 also requires that these accounts be audited once every four years. Property Tax Rule 192 clarifies the statute by requiring that the account achieve the full value minimum to for four consecutive lien dates in order to be subject to the mandatory audit requirement of section 469. Although no legal requirement exists to audit smaller accounts, no audit program is complete unless it includes a representative sample from all sizes and types of accounts, including those that do not meet the mandatory threshold.

CPTD's appraisal sampling of the Modoc County 1993-1994 roll noted numerous taxpayer reporting problems, both in mandatory and non-mandatory business accounts. The most effective method at the assessor's disposal to reduce taxpayer reporting errors is to increase audit coverage.

For many years prior to calendar year 1994, the assessor did not have an auditor-appraiser on staff. This situation resulted in no audits being performed for several years. During 1994 the assessor hired an experienced auditor-appraiser who brought the mandatory audit program current for the roll year 1996-1997. There is also a continuing program to audit nonmandatory accounts. This complete audit program should, over time, decrease reporting problems.

We commend the assessor and her staff for their accomplishments in improving Modoc County's audit program.

## D. VALUATION OF BUSINESS PROPERTY

### 1. Equipment Index Factors

Taxable values of equipment are typically derived from historical costs through the use of valuation factors. The valuation factors are the product of the price index factors and percent good factors which measure depreciation. Accurate assessments of equipment depend on the proper choice and application of these price index and percent good factors. The BOE annually publishes equipment price index and percent good factors in Assessors' Handbook Section 581.

The assessor's staff uses the factors in the Assessors' Handbook as intended. We found no problems with the assessor's valuation of equipment.

## 2. Computers

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. For the 1997 lien date, the BOE issued Letter To Assessors (LTA) 97/18 containing the new valuation factors for the three tables similar to those provided in LTA 96/27. The tables for small computers and mainframe computer systems represent a recalculation of the market data curves that were used to calculate values for computers in those categories for the 1996 lien date. The table for mid-range computers represents new curves based on all data accumulated to date. The Board members reviewed all data presented by the Property Taxes Department staff, the California Assessors' Association, and representatives of the computer industry. The Board members then authorized the publication of the computer valuation tables for the 1997 lien date.

Our review showed that for the 1997 lien date, the assessor appropriately valued computers using the BOE-recommended factors contained in LTA 97/18. We commend the assessor and her staff for using the BOE's recommended valuation tables for non-production computers.

## E. VALUATION OF OTHER TAXABLE PERSONAL PROPERTY

### 1. Boats and General Aircraft

Revenue and Taxation Code section 5363 states that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft prescribed by the BOE. Prior to the 1997 lien date, the BOE had published aircraft valuation data each year in Assessors' Handbook Section 587 *Aircraft Valuation Data*. The BOE no longer publishes this book and requires instead that counties determine market value by referring to a commercially published aircraft price guide. On January 8, 1997, the Board members approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. In cases where aircraft are not listed in this price guide, the Board members approved use of the *Vref Aircraft Value Reference*. As stated in Letter to Assessors 97/03, the Board members further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft

are influenced more by the condition of the aircraft. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

We reviewed many of the assessor's boat and aircraft appraisals. The assessor's staff follows published value guides, including the *Aircraft Bluebook Price Digest* and the *ABOS* boat valuation guide. The assessor adjusts these published boat and aircraft value guides to local market conditions and adds sales tax. We have no recommendations or suggestions to make concerning the boat and aircraft assessment program.

## 2. Manufactured Homes

A property item described in Health and Safety Code sections 18007 and 18008 as a manufactured home/mobile home is defined, for property tax assessment purposes, in Revenue and Taxation Code section 5801 as personal property. However, if the manufactured home is on a permanent foundation that meets the requirements of Health and Safety Code section 18551, Revenue and Taxation Code section 5801 defines the manufactured home as real property which precludes it from characterization as a manufactured home for property tax assessment purposes.

Most of the assessment provisions relating to personal property are not applicable to the assessment of manufactured homes. The primary differences between the taxation of manufactured homes and other personal property are (1) the manufactured home assessment is always entered on the secured roll; (2) the tax may be paid in two installments; (3) a base year value is determined when the manufactured home becomes subject to ad valorem property tax; (4) the taxable value is limited to the lower of current market value or the factored base year value; and (5) a manufactured home that has a change in ownership or new construction is subject to supplemental assessment. These special assessment provisions are specified in Revenue and Taxation Code sections 5800, et seq.

In 1986, 351 manufactured homes were located in Modoc County. That total increased to approximately 1,100 as of March 1997. Nearly two-thirds of the 1,100 manufactured homes were assessed as *real* property improvements on the secured assessment roll, while approximately one-third were subject to a vehicle license fee by the California Department of Housing and Community Development (HCD) in lieu of property tax.

RECOMMENDATION 7: Revise manufactured home assessments by: (1) classifying manufactured homes as personal property on the assessment roll; and (2) assessing taxable manufactured home accessories in rental parks.

The assessor currently classifies all manufactured homes on the assessment roll as real property. Manufactured homes should be classified as personal property on the assessment roll unless they are installed on an approved foundation as provided in Health and Safety Code section 18551. Manufactured homes erroneously classified as real property instead of personal property may cause the improper levy of additional taxes. These additional taxes are created in tax-rate areas that have special assessments which are levied only on real property. There are ten

special assessments for various locations in Modoc County in addition to two Community Service Districts that levy additional special assessments. The assessor stated that all special assessments in Modoc County are applied only against the taxable value of land.

Health and Safety Code section 18008.5 defines manufactured home accessories as any portable, demountable, or permanent awning, a cabana, a ramada, a storage cabinet, a carport, skirting, a heater or cooler, a fence, a windbreak, or a porch established for the use of the occupant of the manufactured home, or other equipment as defined by Civil Code section 1797.3. Some manufactured home accessories may not be subject to property taxation because they are subject to the in lieu vehicle license fee (VLF). Revenue and Taxation Code section 5805 states that manufactured home accessories on a manufactured home first sold prior to July 1, 1977 and located on a rented site are presumed to be subject to a VLF if the manufactured home is subject to the VLF. Accessories installed on a manufactured home sold after that date are always subject to property taxation even if the manufactured home is subject to the VLF because the accessories were never subject to a VLF.

Our previous survey report recommended the assessor identify and assess taxable manufactured home accessories located in rental parks. During our current survey fieldwork, we found that this recommendation has not been implemented.

We recommend the assessor classify manufactured homes as personal property on the assessment roll and assess all taxable manufactured home accessories.

## THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>3</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as-needed basis for the other 47 counties. This sampling program is described as follows:

- (1) A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the county to be sampled.
- (2) These assessments are stratified into 18 value strata (nine secured and nine unsecured).<sup>4</sup>
- (3) From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
- (4) For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:

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<sup>3</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>4</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- a. “B” (base year) properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
  - b. “T” (transferred) properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling..
  - c. “C” (new construction) properties. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
  - d. “N” (non-Proposition 13) properties. Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
  - e. “U” (unsecured) properties. Those properties on the unsecured roll.
- (5) From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum.

Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

- (6) The field investigation objectives are somewhat different in each category, for example:
- a. Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
  - b. Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
  - c. New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
  - d. Non-Prop 13 properties -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

- e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (7) The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
- (8) The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessments sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.



ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



"Where the West Still Lives!"

# County of Modoc

## Office of Assessor

Courthouse  
204 S. Court St., Rm 106  
Alturas, CA 96101-4064  
530/233-6218 Fax: 530/233-6237

*Josephine Johnson*  
Assessor

September 21, 1998

**RECEIVED**

**SEP 24 1998**

County Property Tax Division  
State Board of Equalization

William B. Jackson, Chief  
County Property Tax Division  
Property Taxes Department  
State Board of Equalization  
450 N Street, MIC:62  
Sacramento, California

Dear Mr. Jackson:

Pursuant to Section 15645 of the California Government Code, I am enclosing the Assessor's response to the State Board of Equalization Assessment Practices Survey of Modoc County conducted in May and June of 1997 and request that this response be included as part of the survey report.

I want to thank David Hendrick, Tony Yuenger and the entire field survey team for their courteous and professional manner in conducting the survey with minimal disruption.

I appreciate and welcome the periodic review of the operations of this office. The small number of recommendations in this survey is reflective of our competent and dedicated staff, and I acknowledge and commend their efforts and commitment.

Sincerely,

JOSEPHINE JOHNSON  
Assessor, Modoc County

## **MODOC COUNTY**

### **Response to Recommendations**

**Recommendation 1:** *Enroll escaped assessments in the manner prescribed by the Revenue and Taxation Code.*

We feel we are in compliance with Section 533 of the Revenue and Taxation Code in processing escape assessments - the required caption is stated on the roll correction. If multiple escape assessments exist, each specific year of escape and assessment is separately shown on one form, with one caption indicating all escape years involved. This was done both to eliminate paper and repetition, and has worked very effectively and efficiently for our office and the Auditor's Office.

**Recommendation 2:** *Include the cash equivalent value of the future payments for outstanding improvement bonds in the sale price of real property.*

We are, and have been, aware of the requirements of Property Tax Rule 4 regarding cash equivalency adjustment involving outstanding improvement bonds. The survey subject parcels are part of a large subdivision that we have been closely monitoring regarding market value - there are 7000+ lots under Proposition 8 status. Prior to this status, in this subdivision area, our records referenced the improvement bond but also indicated that the improvement bond was included within the purchase price.

**Recommendation 3:** *Assess all taxable possessory interests.*

We are monitoring the history of use of events held at the County Fair to determine if these events continue and meet the requirements of a taxable possessory interest.

**Recommendation 4:** *Assess all land subject to the provisions of Article XIII, Section 11 of the California Constitution at the lowest of the (1) current fair market value, (2) Article XIII, Section 11 factored value, or (3) Article XIII A factored base year value.*

We have taken steps to implement the documentation with this recommendation.

Recommendation 5: *Develop assessment techniques that eliminate the likelihood that mutual water company property will escape assessment.*

We agree in theory with your suggestion regarding monitoring possible new construction in mutual water company properties and will continue in that endeavor. Prior to 1991, we had assessed the distribution system to the water associations (mutual companies). In your 1991 survey analysis, it was your position that the value was already included in the base year value of the land, and we therefore canceled the assessments as review of the member properties substantiated your contention that the water service was in the land value.

In further response to the current survey recommendation, only one of the subject companies has an existing loan, for which indebtedness was incurred prior to 1975. Unless there is some decision to the contrary, we must assume that the base year value is protected for those owners of record as of the 1975 base year as provided pursuant to Article XIII A of the Constitution - i.e., corrections expired June 30, 1980.

We also agree that new construction would cause a change in value to the individual members property but would not create a separate assessment to the mutual water association. As far as we can conclude, this is not the situation here.

Additionally, area appraisers from both Modoc and Siskiyou Counties reviewing properties in this subject area have concluded that there is no ad valorem measurable difference in market value between properties serviced by the mutual water companies and other properties with like amenities.

Recommendation 6: *Annually determine the taxable values of eligible historic properties by enrolling the lowest of the: (1) Section 439 restricted value; (2) Article XIII A factored base year value; or (3) current market value.*

We have taken steps to implement this recommendation.

Recommendation 7: *Revise manufactured home assessments by: (1) classifying manufactured homes as personal property on the assessment roll; and (2) assessing taxable manufactured home accessories in rental parks.*

As staffing and time permits, it is our intention to implement this recommendation.